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UNCLAS SECTION 01 OF 02 KINSHASA 000678

SIPDIS

SENSITIVE

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TREASURY FOR OWHYCHE-SHAW

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SUBJECT: IMF AIMING FOR NEW DRC PROGRAM IN 2007

REF: KINSHASA 327

**¶1.** (SBU) Summary. The International Monetary Fund (IMF) hopes to have a new DRC program in place by the end of 2007. At the end of its two-week Article IV consultation in the DRC, the IMF cited currently stable macroeconomic indicators, increasing revenues, and a need for external debt relief as among the reasons for moving toward negotiations for a new DRC program. The IMF expressed concerns about the "quality" of government spending and the lack of governmental policy leadership and coordination. End Summary.

**¶2.** (SBU) International Monetary Fund (IMF) Africa Division Chief Cyrille Briancon and Resident Representative Xavier Maret briefed the diplomatic and donor community June 7, at the end of a two-week Article IV consultation. Briancon, Maret and team members also met privately with the Ambassador and EmbOffs May 31. Maret also discussed the IMF's program and perspective with the American business community at a roundtable at the Ambassador's residence on June 18. The team last visited in March (reftel) and as usual, they met with a range of GDRC officials, including Prime Minister Gizenga; the Central Bank Governor; the Ministers of Finance, Budget, and Plan; and representatives of both public and private enterprises. Their objectives included a review of the DRC's performance under the current Staff-Monitored Program, consultations on the draft budget and an assessment of whether negotiations can begin for a new program. This trip is the last for Briancon, who will be taking a new assignment with the IMF.

**¶3.** (SBU) Overall, the IMF's conclusions were more positive than during the last visit. Briancon said the IMF expects to begin negotiations on a new program by September, with the (comment: optimistic) goal of having it in place by the end of 2007. Briancon cited improved macroeconomic stability, increasing public revenues and a need for debt relief as among the reasons the DRC needs a new program. HIPC completion point could be achieved after a six-month track record on a new program.

MACROECONOMIC INDICATORS

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**¶4.** (U) Briancon pointed out on June 7 that some economic indicators have stabilized, albeit only recently. The exchange rate has appreciated by nearly 10 percent over the previous month, and the inflation rate has stabilized at an annualized rate of 18.3 percent, according to the IMF. The team attributed these developments to the Prime Minister's instructions to ministers, (especially the Minister of

Budget) to limit spending to the resulting decreased pressure on the Central Bank (BCC), and to the commercial banks' recent need to sell dollars to the BCC to meet the demand for Congolese Francs. The BCC's foreign reserves increased from USD 100 million in March to USD 190 million as of May 30, attributed to increased mining sector tax payments and the receipt of a scheduled petroleum revenue payment. Further, the GDP annual growth rate continues to rise; Briancon said under the most optimistic scenario it could reach eight percent in 2007.

#### LACK OF LEADERSHIP

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¶ 15. (SBU) To obtain long-term economic stability, the IMF team said government-level coordination and leadership of the economic and financial portfolios is needed. Thus far, the IMF has seen little coordination of intra-ministerial or inter-ministerial programs and projects, and little progress in the development of a cohesive economic plan.

#### BUDGET

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¶ 16. (SBU) The team had only a few criticisms of the 2007 budget, while focusing more attention on supporting the drafting of a "more solid" budget for 2008, a process that has already begun. The National Assembly approved a USD 2.47 billion CY2007 budget June 14 (septel). (Note: The Senate must approve the budget before it goes to President Kabila for signature. There are many as yet unanswered questions about the proposed budget and about its unrealistic projected revenues. End note.) Briancon expressed concern about the

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"quality" of some of the GDRC's spending, particularly in defense. Military spending, he added, has been the "least transparent" of budgetary items. Briancon also said social spending needs to be increased.

¶ 17. (SBU) Briancon noted that few if any donors have indicated they will provide direct budgetary support in 2007. The IMF expects that the booming mining sector, particularly in copper and cobalt, should drive revenue increases. Briancon said the reform of state enterprises and agencies, including the merger of some, is crucial. He recommended the merger of DGRAD (administrative and judicial fee collection authority) into DGI (DRC's income tax authority).

¶ 18. (U) The IMF supported the GDRC's efforts to coordinate donor engagement, but said that a Consultative Group meeting on this topic would best occur after a 2007 budget is passed and to the extent possible, in coordination with a new IMF program. Indeed, during the IMF visit, the GDRC decided to postpone the June 20-22 Consultative Group meeting until October.

#### COMMENT

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¶ 19. (SBU) The IMF's comments must be taken in the context of the concerns it noted about the GDRC's lack of financial leadership and fiscal discipline. Further, the 2007 macroeconomic indicators have only stabilized in the last two months. A new program is essential, however, in order to facilitate the cancellation of heavy debts, and to re-build the country. End comment.

MEECE